THE READJUSTMENT OF OUR BANKING SYSTEM AND THE UNIFICATION OF THE CURRENCY

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The importance of remedying the confused condition of our many issues of paper currency and relieving the stigma of discredit that has attached thereto for a great nation like ours has been a favorite topic of discussion for several years among students of finance. It would seem desirable that such modifications should be made as would bring about a more harmonious unification of currency issues.

It is not to be denied that formidable obstacles to securing such a result exist, more especially in overcoming the prejudices in the public mind and the views of legislators, who hold with great tenacity long-cherished ideas on the efficacy and wisdom of a retention of the "greenback," and the opinions of the silver doctrinaires who believe in basic money as the safest and most desirable form of circulating medium. Our conglomerate currency issues have been largely the growth of a necessitous condition that has been met by temporizing legislation; therefore this must be the excuse for the weakness and helplessness that has produced such an unsatisfactory currency system.

As we come out into the light of national strength and independence, we look back with a more critical eye upon present financial aspects and their origin. It is, however, encouraging that we as a people are restive over the disclosures thus made. There is an undoubted sentiment that something should be done that shall place our monetary system upon such a broad and comprehensive basis as will be lasting in its beneficent workings and stand the test of time, not only for half a century, but for an entire century.

In view of these facts, I offer a plan that is more in the nature of a suggestion, but which I hope may incite intelligent examination and discussion that shall evoke something of value in response to the yearnings of those who would like to see a remodelled currency system, a plan for national finance that should not be discreditable to our intelligence and our experience of to-day.

Retirement of United States Notes

(1) I advise legislation by Congress, authorizing the Secretary of the Treasury to retire United States notes in sums not less than 50 millions nor exceeding 100 millions per annum. The payment of the United States notes and the releasing of the reserve fund for their redemption would give a legal reserve of about 350 millions in gold for banking purposes.

Public sentiment is once again agitating the desirability of utilizing the advantage of an overflowing national treasury for the gradual retirement of United States notes or what are known as "greenbacks." The minimum sum, $346,000,000, has not been changed since Secretary McCulloch was instructed by Congress not to retire any more of these notes and when Congress declared that that amount should remain in circulation. Since that time there has been periodical agitation by bankers and financial students to secure a revival of the practice of Secretary McCulloch of retiring "greenbacks" when the surplus of the treasury allowed such a step, under the enactment of February 25, 1862. Various objections have been raised to this among others, that it would cause a contraction of the currency on the part of others, that it would destroy in a measure the amount of reserve money which was not at all excessive for banking use; and by others, that there would be a saving of interest.

The increased supply of gold would seem to be an assurance that there need be no apprehension of a lack of a sufficient legal reserve, in case 20 or 50 millions per annum of "greenbacks" were replaced by gold coin. It has perhaps escaped popular attention that we have over 150 millions of coin and bullion held in reserve against the issue of 346 millions of greenbacks, which leaves an approximate currency supply of $170,000,000 available for circulation.

The permissive circulation of United States notes is 346 millions. Of this, there is an average of 26 millions held in the vaults of the treasury, which, taken from this sum leaves 320 millions in actual circulation. There is now a reserve fund of 150 millions in gold for redemption of United States notes. Taking this from the 320 millions leaves only a practical gain to circulation of United States notes of 170 millions, provided that the reserve fund of 150 millions were not released.

The saving of interest can, therefore, only be reckoned on 170 millions, which, at 2 per cent, would amount to about $3,700,000 annually. The saving of interest to the government is but a small item for a circulation of $170,000,000.

If the gradual retirement of greenbacks were known to be the settled policy of the government, this would give rise to an enhancement of the credit of the country, and the financial repute therefrom would far outweigh any paltry saving of the interest account. Such a step would convince the international investor that gold was the legal and established standard of the country, and that he might confidently feel that his investment would be returned to him in gold, on demand. It would promote a larger growth of the national banking system, which is doing so much to uphold the credit of our securities. It follows, therefore, that no apprehension need be felt of calamitous results from a gradual retirement of the greenbacks.

Retirement of Silver Certificates

2. I advise the retirement of all outstanding silver certificates—about 475 millions—and the issuance therefor of 2 per cent United States fifty-year bonds for an amount not exceeding 50 to 100 millions per annum. The silver dollars so released from pledge in paying off silver certificates could be utilized for the government's need of subsidiary coin. This would do away with the purchase annually of a large amount of bullion, which in the past year amounted to nearly nine million dollars.

3. The retiring of these two kinds of money—United States notes and silver certificates—would do much to complete the unification of the currency, as national bank notes and gold certificates would be the only currency used.

4. I would advise that the present issue of national bank notes be retired, and that the government bonds so pledged for circulation and payment be redeemed by a special bond known as a "banking bond," bearing interest at 2 per cent for a term of not less than fifty years; and that such bonds as are now held for circulation should be redeemed and paid for at a premium of 5 per cent to reimburse the average cost to the investor, as the government should not require the banks to pay more money than they actually receive therefor.

I advise that the sale and purchase of these banking bonds should be under the absolute control of the government, and that when a bank desires to retire its circulation, the government shall buy the bonds at not less than par and without premium. This will do much to prevent the daily speculation in government bonds which not only causes fluctuations in price, but affects the volume of circulation without regard to business conditions. The bonds so purchased should be destroyed. The denominations of these bonds should not be less than $10,000 nor more than $100,000. The bonds to be issued for the retirement of silver certificates should also be banking bonds as before described. This would furnish the basis of additional circulation without contracting the volume of currency and the total amount of 500 millions, which is the measure of the volume of silver certificates, would then be reissued during the term of ten years in the form of national currency.

Some one might make objection to the retirement of silver certificates, in that there may be no legal reserve money to take its place, but in the gradual retirement of silver certificates to the amount of 50 to 100 millions per annum we could fairly look for an adequate supply of gold. The volume of gold production is now over 400 millions annually, and our country is *increasing* its gold output in comparison with other nations.

United States National Bank Currency

5. The new issue of bank notes should be known as "United States National Bank Currency." This designation would give it an *international* recognition, and the sentimental effect of such a designation would inspire world-wide confidence in its genuineness and its financial responsibility.

I would advise that simplicity of design of all notes be carried out in the different denominations, and that the distinction should mainly be upon two points: first, the denomination itself, and second, a vignette differing for each denomination issued. This would give such uniformity in size and appearance, that the note would easily be recognized and would be more difficult to counterfeit. The denomination numbers should be *large,* so that the counter could not fail to see the same clearly at a glance. A vignette is said to be the most difficult thing to counterfeit, and experience has proved that

the least embellishment on a note affords the greatest protection against counterfeiting. The different banks using this new circulation would be known only by the numbers printed on each note.

A sentimental objection might be made to the elimination of the individuality of the bank note, but when the facts are taken into consideration, it is well known that it is very seldom that the holder of a bill looks at the signature, his only concern being that it bears the impress of guarantee by the United States government.

This uniformity of size and design would be less expensive to prepare, and a large quantity of currency could be kept on hand which would be applicable to the needs of any banker. The only names of officials attached to said notes would be those of the Comptroller of the Currency and the Treasurer of the United States.

These notes should be issued in such a percentage of denominations as would meet the existing and growing demands of business conditions. All banks should be required to take out such percentage of ones, twos, fives and tens as would meet the requirements of business. The same form of note would provide for a permanent, as well as an emergency or "supplemental" currency.

The guaranty of the government on said notes would simply be expressed thus: *"This note is secured by bonds deposited with and guaranteed by the United States."* Three hundred millions of these notes should be held in reserve for additional circulation, and as they would be used in common by every national bank, there would be no risk in so doing. There would also be a lessened expense in repairing and issuing the same.

This re-adjustment would not only unify the currency, but in its simplified design, would avoid the well-deserved criticism of confusion in our monetary forms of currency, and make it more acceptable in all the money markets of the world. This unification of the currency has long been desired by large numbers of the American people, but no feasible plan has been put forth. These notes would be acceptable for taxes and other purposes in the same way as the present national bank notes, which would be in supply until all the silver certificates had been called in and canceled.

There might be objections on the part of some devoted advocates of silver, that it is the money of the people, and that they

would oppose its withdrawal. The records of the Treasury show that the demand for silver dollars over that for currency, arises mainly from the fact that the transportation of the silver dollar is made *free by appropriation from Congress,* whereas there is a charge for the transportation of currency. This was abundantly demonstrated last year when the appropriation for free transportation of silver dollars was exhausted and the demand therefor was reduced nearly *seventy-five per cent!* When a new appropriation was granted silver dollars were given in demand because transportation was made free.

It might be further objected that the retirement of silver certificates would make an additional interest charge of some ten million dollars to the American people, but it must be considered that there would be a great saving to the government in the profit of utilizing the silver dollars for subsidiary coin, and also in the lessened expense of furnishing currency of one simple uniform design, and in the saving of loss to the government by the abrasion of silver dollars. This is a large item in the Treasury to-day, as not less than a million dollars are short-weight, and probably on a closer investigation, this amount might be largely increased.

The paramount question, however, is not simply one of saving a small amount of interest, but it is, what would be to the greater advantage, convenience and profit to the American people? It would seem to me that now is the time, when far-reaching amendments are needed to the laws of our banking system, to so construct a system of finance which, while it shall be absolutely safe and desirable in its appearance, shall also have the elements that are needed not only for a permanent but for an emergency or supplemental circulation.

I append hereto my well-known views on the supply of a supplemental currency, which needs no further elucidation. This whole plan, as I have outlined it, would not only accomplish a fundamental re-adjustment of our banking system, but would, I believe, meet the demands of the American people to-day, and likewise the needs of fifty years hence, when the population of the country shall have largely increased and the business needs be correspondingly enhanced.

It would seem that our requirements are peculiar to ourselves and cannot be likened to those of any other nation. We grow crops

to the value of over seven billion dollars and manufacture to the amount of fifteen billions. Legislation should therefore be so comprehensive that an adequate amount of currency could be issued, under proper legal forms, that would always provide sufficient funds to move the crops without an exorbitant tax such as is advocated by the friends of asset currency, which would seem to penalize the grower for producing excessive crops or the manufacturer for making an enlarged output.

There should be a broad distinction between the use of a supplemental currency for recurring autumnal needs, and an emergency currency in time of panic. What this country needs is not only an enlargement of banking credit at crop-moving seasons, but also the establishment of a system whereby the panicky conditions that recur every seven or ten years may be met.

The present National Banking Act should be so amended as to permit any national bank with not less than 50 per cent of its capital invested in United States bonds, to issue national emergency or supplemental currency not exceeding the remaining 50 per cent nor more than its capital stock. Such emergency notes I would have similar in form and design to our present national bank notes, but the guaranty thereon should be modified to read: "This note is secured by bonds deposited with and guaranteed by the United States." The issue of these notes might be made in four, six or eight months, dating from August 1st or September 1st, as may be needed at crop-moving periods.

I would accept collateral for this supplemental currency issue in the form of state and municipal bonds that meet the requirements of savings banks investments in the States of New York, Connecticut, Massachusetts and New Jersey, such securities to be accepted at 70 per cent of their market value. I would have the bank make a collateral note to the order of the Treasurer of the United States on four, five or six months, and should it fail to meet the notes at maturity, it should be penalized in the sum of 2 per cent per month, until paid; the United States Government to guarantee the redemption and payment of all notes so issued, at a charge of about 3 per cent. I would not extend the selection of bonds to other than those of states and municipalities which have the government power of taxation behind them, as it would be well,

in my judgment, to limit this class of bonds and not open the door to the acceptance of railroad, industrial and real estate bonds.

How Inflation Would be Avoided

This plan requires a margin of 30 per cent on the amount of notes issued, which, it would seem, would be ample in every contingency to safeguard the government. These notes would have a definite time for maturing and when they were paid for, so much currency would be retired which, practically in a compulsory way, would prevent any permanent or undue inflation of the currency. As to the amount of issue, Congress could determine it, based upon the outstanding issue of national bank notes, permitting an increase of $33^1/_3$ or 50 per cent, in addition to the regular circulation.

This plan would give practically all the advantages of a great central bank, as far as the issue of currency is concerned, without the drawbacks of mixed responsibility or adding to the confusion of another form of currency, which there would be if a great central bank were permitted the right to issue its notes. It would seem that making the interest rate about 2 per cent is already too low. It might be increased to 3 per cent per annum—1 per cent more than interest on United States bonds—what the national banks now pay in semi-annual duty and taxation on circulation. If good collateral be furnished, why should the people be compelled to pay any higher rate?

Some criticism has been made that a larger percentage of loans than 70 per cent could be made on good state and municipal securities, but it is of importance that the price of United States 2 per cent bonds should be safeguarded, and that their supremacy as a security should be upheld, whereas if too large an advance was made on other bonds, the credit of the 2 per cent would be impaired.

Interest should Not be Excessive

It has long been the practice in finance that the borrower who gives the best collateral secures the loan at the lowest rate of interest. If the currency was issued on the general assets of the bank, without compulsory retirement, the risk would be greater and the rate of interest increased. An excessive rate of tax is not to be considered in this case, because the issue of supplemental

currency is applied to a normal condition of business that recurs every autumn.

Adequate monetary facilities should be provided to move the crops without disturbing the normal conditions of banking business that prevail throughout the country. The crops cannot, under present conditions, be moved without a great disturbance, by the calling of loans amounting to $250,000,000 or $300,000,000.

To meet this exigency it is important that a supplemental currency should annually be issued at a low rate, at moderate cost and with specific security, as is now required for the issue of all bank notes. This supplemental currency should be so liberal and attainable in its terms that the burden of the accommodation would scarcely be felt.

The advocates of asset currency propose that an issue of bank notes be made, based upon the general assets of a bank and taxed at a high rate of interest. To this conservative men demur, because the security behind the notes would not be sufficient to guarantee them, the assets of a bank not being proper security for the issuance of notes, even with the addition of a reserve redemption fund.

What the farmer, the manufacturer and business man generally need is to have banking accommodations at a moderate cost. It would seem that those whose productions are so large, whether from the field, the factory or the mine, should not be penalized by a high rate of interest for the use of money at every recurring crop-moving season. If safe collateral be furnished the charge should be at the lowest rate of cost of issuing and redeeming the supplemental notes.

Repeal Tax on National Bank Circulation

The national government now has a monopoly of our currency. Therefore it should not withhold from the people this inestimable service, when good collateral approved by bankers can be given for the currency furnished. It might be well to repeal the tax of one-half of one per cent on bank circulation and also permit banks to take out additional supplemental circulation to the extent of the premium on bonds now pledged for redemption of the bank notes.

I feel justified in making this suggestion that the charge against issuing the supplemental currency be no more than 3 per

cent per annum, for as the government charges no interest on its public deposits, why should it do so for loaning its credit? It is only as rational an expansion of the privilege to loan the credit of the government in the form of national bank notes as it is to loan the government's money under the name of deposits.

It does not seem to me that any valid objection could be made to the issue of such supplemental currency under government control. This plan would seem to me a natural evolution of the custom of national banking. It does not commit the government to any untried or hazardous experiment or confuse the public mind with the idea that there is to be any radical departure from the present system of banking.

No danger lurks in the plan. Seeing as I do every day the importance of affording additional relief to the business interests of the country, I offer a plan that does not pretend to be a panacea, but is, I believe, not the dream of a financial visionary. I am no "faddist" on currency reform, and am looking only for the attainable, and for a plan that shall commend itself to the common sense of the American people as safe and practicable.